

FINANCIAL AUDIT  
OF THE  
TRANSITION IN THE OFFICE OF STATE TREASURER  
DEPARTMENT OF TREASURY

As of November 20, 1998

Mr. Mark A. Murray  
State Treasurer  
Treasury Building  
Lansing, Michigan

Dear Mr. Murray:

This is our report on the financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of November 20, 1998.

This report contains our description of agency, audit objective and audit scope, receipt of acting State Treasurer, and independent auditor's report on the financial schedule. This report also contains the schedule of cash and investments in the possession or under the control of the State Treasurer as of November 20, 1998 and the notes to financial schedule.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

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## Description of Agency

The chief deputy treasurer, Madhu R. Anderson, was appointed acting State Treasurer when State Treasurer Douglas B. Roberts resigned from office, effective November 20, 1998.

The State Treasurer manages the State's cash so that amounts not needed to pay immediate obligations are invested to earn income. The State Treasurer's Common Cash accounts for the investment of this cash.

The State Treasurer is the investment fiduciary and/or investment custodian for State-administered retirement funds. The State Treasurer is also responsible for the investment function as it relates to State government in general.

The State Treasurer has various other responsibilities that result in the possession or control of cash and investments. These responsibilities consist of:

1. Serving as the treasurer for the Mackinac Bridge Authority.
2. Acting as fiscal agent for the Michigan State Hospital Finance Authority, Michigan Family Farm Development Authority, Michigan Education Trust, Michigan Underground Storage Tank Financial Assurance Finance Authority, and State Treasurer's Escrow and Paying Agent Fund.
3. Receiving and processing assets (unclaimed property) required by statute to be escheated to the State.
4. Holding collateral pledged to the State for various purposes.

Subsequent to our audit, the Governor, with the advice and consent of the Senate, appointed Mark A. Murray as State Treasurer, effective January 10, 1999.

## Audit Objective and Audit Scope

### Audit Objective

Our financial audit of the Transition in the Office of State Treasurer, Department of Treasury, was required by Section 12.10 of the *Michigan Compiled Laws*:

Upon the death or resignation of the state treasurer, or upon a vacancy in the office of state treasurer from any other cause, the auditor general shall perform an audit of cash and securities in the possession or under the control of the state treasurer.

Our objective was to audit the schedule of cash and investments in the possession or under the control of the State Treasurer as of November 20, 1998.

### Audit Scope

Our audit scope was to examine the financial and other records of the Department of Treasury relating to cash and investments as of November 20, 1998. Our audit was conducted in accordance with generally accepted auditing standards and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Subsequent to our audit, the Governor, with the advice and consent of the Senate, appointed Mark A. Murray as State Treasurer, effective January 10, 1999. Our audit of the Transition in the Office of State Treasurer as of January 9, 1999 was conducted and reported on separately.

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY

RECEIPT OF ACTING STATE TREASURER

I, Madhu R. Anderson, serving as Acting State Treasurer of the State of Michigan, effective November 21, 1998, hereby acknowledge receipt of possession and control of the items listed below, as reported on by the Office of the Auditor General in its financial audit of the Transition in the Office of State Treasurer, Department of Treasury, as of November 20, 1998, from Douglas B. Roberts, my immediate predecessor:

State Treasurer's Common Cash	\$ 2,293,244,290
Specific Funds' Investments	36,222,116,634
Other Cash and Investments	244,631,809
Pledged Collateral Investments	<u>759,736,681</u>
Total	<u>\$39,519,729,414</u>

This receipt is given pursuant to Section 12.10 of the *Michigan Compiled Laws*.

Dated \_\_\_\_\_ Acting State Treasurer \_\_\_\_\_

ACCEPTANCE:

Dated \_\_\_\_\_ Douglas B. Roberts \_\_\_\_\_

Independent Auditor's Report on  
the Financial Schedule

April 9, 1999

Mr. Mark A. Murray  
State Treasurer  
Treasury Building  
Lansing, Michigan

Dear Mr. Murray:

We have audited the accompanying schedule of cash and investments in the possession or under the control of the State Treasurer as of November 20, 1998. This financial schedule is the responsibility of the Department of Treasury management. Our responsibility is to express an opinion on this financial schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying financial schedule was prepared solely for the purpose of acknowledging transfer of responsibility for cash and investments in the possession or under the control of the State Treasurer upon the transition in the Office of the State Treasurer at midnight on November 20, 1998 and is not intended to constitute a complete financial presentation of the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan, in accordance with generally accepted accounting principles.



In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the cash and investments in the possession or under the control of the State Treasurer as of November 20, 1998, on the basis of accounting described in Note 1b, and as valued as described in Note 1c.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

TRANSITION IN THE OFFICE OF STATE TREASURER  
Schedule of Cash and Investments  
in the Possession or Under the Control  
of the State Treasurer  
As of November 20, 1998

State Treasurer's Common Cash

Cash on Hand	\$ 171,487
Demand Deposits	265,940,080
Time Deposits	48,915,000
Prime Commercial Paper	2,507,791,714
Emergency Municipal Loans	<u>2,103,666</u>

Total Assets \$ 2,824,921,947

Outstanding Warrants (531,677,657)

Total Available State Treasurer's Common Cash \$ 2,293,244,290

Specific Funds' Investments

Michigan Veterans' Trust Fund	\$ 41,140,872
Game and Fish Protection Trust Fund	19,770,845
Michigan Natural Resources Trust Fund	49,775,977
Michigan State Parks Endowment Fund	20,966,094
Children's Trust Fund	3,737,758
State Lottery Fund	923,156,090
Michigan Higher Education Assistance Authority	1,425,228
Legislative Retirement Fund	124,798,975
State Police Retirement Fund	724,256,034
State Employees' Retirement Fund	6,699,875,717
Public School Employees' Retirement Fund	23,684,625,002
Judges' Retirement Fund	238,779,608
State Employees' Deferred Compensation:	
Fund I (457)	1,977,596,122
Fund II (401(k))	825,864,685
State Employees' Defined Contribution Retirement Fund	159,395,729
Gifts, Bequests, and Deposits Investment Fund	14,400,324
Federal Housing Administration Mortgages Escrow Fund	5,240,700
Michigan Education Trust	<u>707,310,874</u>

Total Specific Funds' Investments 36,222,116,634

Other Cash and Investments

Mackinac Bridge Authority	
Cash and Demand Deposit Accounts	\$ 1,334,195
Investments	23,067,368

*This schedule continued on next page.*

TRANSITION IN THE OFFICE OF STATE TREASURER

Schedule of Cash and Investments  
in the Possession or Under the Control  
of the State Treasurer  
As of November 20, 1998  
*Continued*

Fiscal Agent:

Michigan State Hospital Finance Authority	
Demand Deposit Account	\$ 19,178
Investments	7,453,300
Michigan Family Farm Development Authority	
Demand Deposit Account	2,158
Investments	66,911
Michigan Education Trust	
Demand Deposit Accounts	836,230
Michigan Underground Storage Tank Financial Assurance Finance Authority	
Investments	26,071,717
State Treasurer's Escrow and Paying Agent Fund	
Demand Deposit Account	1,637,553
Investments	162,416,384
Unclaimed Property Division Assets	
Escheats Fund	<u>21,726,815</u>

Total Other Cash and Investments	\$ 244,631,809
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Pledged Collateral Investments

Held by the State Treasurer:

For Insurance Companies	\$ 371,022,681
For State Deposits	363,774,000
For Trust Powers	12,690,000
For Fiscal Agent Deposits	<u>12,250,000</u>

Total Pledged Collateral Investments	<u>759,736,681</u>
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Total Cash and Investments	<u>\$ 39,519,729,414</u>
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The accompanying notes are an integral part of the financial schedule.

## Notes to Financial Schedule

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedule reports the cash and investments in the possession or under the control of the State Treasurer as of November 20, 1998. The financial schedule was prepared solely for the purpose of acknowledging transfer of responsibility for cash and investments upon the transition in the Office of State Treasurer effective at midnight on November 20, 1998. The financial schedule does not report certain escheats assets received by the State Treasurer but not recorded at November 20, 1998. The value of those assets has not been determined by Department of Treasury personnel.

#### State Treasurer's Common Cash

The State Treasurer, under authority provided by State statute, manages the State's common cash pool. The pooling of cash allows the State Treasurer to invest money not needed to pay immediate obligations so that investment earnings on available cash are maximized. Pool investments are not segregated by fund; rather, each contributing fund's balance is treated as equity in the common cash pool. Warrants outstanding represent those State warrants issued and outstanding at November 20, 1998. These warrants represent an obligation of the State Treasurer's Common Cash.

#### Specific Funds' Investments

The State Treasurer, under authority provided by State statutes, manages most investments for the State of Michigan.

### Other Cash and Investments

The State Treasurer has various responsibilities that result in the possession or control of cash and investments. These responsibilities consist of:

1. Serving as the treasurer for the Mackinac Bridge Authority.
2. Acting as fiscal agent for the Michigan State Hospital Finance Authority, Michigan Family Farm Development Authority, Michigan Education Trust, Michigan Underground Storage Tank Financial Assurance Finance Authority, and State Treasurer's Escrow and Paying Agent Fund.
3. Receiving and processing assets (unclaimed property) required by statute to be escheated to the State.

### Pledged Collateral Investments

The State Treasurer is responsible for or holds collateral for various purposes:

1. Collateral pledged by insurance companies as a condition of conducting business in the State.
2. Collateral pledged by banks to secure deposits of State money.
3. Collateral pledged by banks as a condition of conducting trust operations.
4. Collateral pledged by banks to secure deposits of fiscal agent money.

### b. Basis of Accounting and Presentation

The State Treasurer's Common Cash is reported on the cash basis of accounting. Specific Funds' Investments and Other Cash and Investments are reported on the accrual basis of accounting, except for the Michigan Family Farm Development Authority and the Michigan Underground Storage Tank Financial Assurance Finance Authority

investments, which are reported on the cash basis. Pledged Collateral Investments are reported on the basis of par value for items in the State Treasurer's accounts on November 20, 1998.

The accompanying financial schedule presents the cash and investments in the possession or under the control of the State Treasurer, including pledged collateral investments not owned by the State. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of the State of Michigan, the Department of Treasury, or any individual fund of the State of Michigan, in accordance with generally accepted accounting principles.

c. Valuations of Investments

All State Treasurer's Common Cash investments are reported at cost.

Investments of the Specific Funds are reported at book value, with the exception of the State Employees' Deferred Compensation Funds' and the State Employees' Defined Contribution Retirement Fund's investments, which are reported at fair value.

Mackinac Bridge Authority investments are reported at par value.

Michigan State Hospital Finance Authority investments are reported at par value.

Michigan Family Farm Development Authority investments are reported at cost.

Michigan Underground Storage Tank Financial Assurance Finance Authority investments are reported at cost.

State Treasurer's Escrow and Paying Agent Fund investments are reported at par value.

Escheats assets consist of:

1. Escheated investments reported at fair value.
2. Coins and currency reported at estimated value.
3. Jewelry and miscellaneous items reported at estimated value at the date initially recorded by the Department of Treasury.

Pledged collateral investments held by the State Treasurer are reported at par value.

Note 2 Subsequent Events

Appointment of State Treasurer

The accompanying financial schedule relates to the transition in the Office of State Treasurer, upon the resignation of State Treasurer Douglas B. Roberts and the appointment of the Acting State Treasurer, Madhu R. Anderson, effective at midnight on November 20, 1998. Subsequently, effective January 10, 1999, the Governor, with the advice and consent of the Senate, appointed Mark A. Murray as State Treasurer.